Gibraltar Mines Limited Annual Report 1975

Gibraltar Mines Limited

DIRECTORS

ROSS G. DUTHIE, Vancouver, B.C.
President & Chief Executive Officer,
Placer Development Limited

*J. DOUGLAS LITTLE, Vancouver, B.C.
Executive Vice-President,
Placer Development Limited

*ROBERT A. MATTHEWS, Vancouver, B.C.
Manager,
Ram Investments Ltd.

THOMAS H. McCLELLAND, Vancouver, B.C.
Chairman of the Board,
Placer Development Limited

JAMES L. McPHERSON, Vancouver, B.C.
Vice-President, Finance & Administration,
Placer Development Limited

EDGAR A. SCHOLZ, Vancouver, B.C.
Vice-President, Exploration,
Placer Development Limited

*ARTHUR K. POUSSETTE, Vancouver, B.C.
Retired

**Member of the Audit Committee*

OFFICERS

THOMAS H. McCLELLAND, *President*
J. DOUGLAS LITTLE, *Vice-President*
JAMES L. McPHERSON, *Vice-President, Finance*
ANTHONY J. PETRINA, *Vice-President, Operations*
DONALD HALLAM, *Secretary*
JOHN RACICH, *Treasurer*
HOWARD F. GOUGEON, *Comptroller*
JOHN A. ECKERSLEY, *Assistant Secretary*

DEPARTMENT HEADS

J. M. GIBBS, *Mine Manager*
W. D. DIMENT, *Mine Superintendent*
A. P. INAMDAR, *Mill Superintendent*
W. A. TRYTHALL, *Chief Engineer*
A. K. CROTEAU, *Plant Superintendent*
G. D. BACH, *Chief Accountant*
G. G. BELL, *Employee Relations Superintendent*

VALUATION DAY

On December 22, 1971, established as valuation day by the Department of National Revenue, the price of the Company's Common Shares was $4.70 per share.

ANNUAL MEETING

The Annual General Meeting of Shareholders will be held at 11:00 a.m. on Thursday, March 18, 1976 in the Board Room, Hotel Vancouver, 900 West Georgia Street, Vancouver, B.C.

OFFICES

Head Office:
700 Burrard Building
1030 West Georgia Street
Vancouver, B.C. V6E 3A8

Mine Office:
P.O. Box 130
McLeese Lake, B.C. V0L 1P0

AUDITORS

Price Waterhouse & Co.,
Chartered Accountants, Vancouver, B.C.

REGISTRAR AND TRANSFER AGENT

Guaranty Trust Company of Canada,
Vancouver and Toronto, Canada

BANKERS

Canadian Imperial Bank of Commerce
The Bank of Nova Scotia

LISTINGS

Toronto Stock Exchange
Vancouver Stock Exchange

Highlights

	Year Ended December 31, 1975	1974
FINANCIAL		
Sales	**$39,556,000**	$61,367,000
Royalties and income taxes	**$ 2,008,000**	$ 8,866,000
Net earnings (loss)	**$ (376,000)**	$17,302,000
Earnings (loss) per share	**$ (0.03)**	$ 1.52
Dividends	**—**	$11,411,000
Dividends per share	**—**	$ 1.00
Working capital	**$16,049,000**	$12,229,000
Common shares outstanding	**11,411,469**	11,411,469
Number of shareholders	**2,606**	2,522
PRODUCTION		
Ore milled — tons	**11,451,000**	13,397,000
Average daily throughput — tons	**34,400**	38,300
Average grade of ore milled — % copper	**0.43**	0.40
Recovery of copper — %	**84.73**	84.29
Copper concentrate produced — tons	**158,700**	166,800
Average grade of concentrate — % copper	**26.31**	27.06
Copper produced — pounds	**83,559,000**	90,246,000
Molybdenum produced — pounds	**78,000**	746,000
Number of employees	**525**	632
MARKETING		
Copper concentrate sold — tons	**170,000**	150,000
Average L.M.E. price per pound of copper (U.S.¢)	**55.99¢**	93.39¢

(Tons = short dry tons)

Report to Shareholders

The Annual Report for the year ended December 31, 1975 is respectfully submitted by the Board of Directors.

Financial

Gibraltar experienced a loss of $376,000 or $0.03 per share after provision of $5,320,000 for depreciation and depletion, and $2,008,000 for royalties and income and mining taxes. This compares with net earnings of $17,302,000 or $1.52 per share in 1974.

The substantial reduction in earnings was due primarily to an abnormally low price for copper. This resulted from a significant decline in copper consumption which, in turn, led to large accumulations of inventory in Western Bloc countries. These conditions will continue to depress the price during 1976. Also significant was the impact of taxes and royalties which converted pre-tax earnings of $1,632,000 to a loss.

In these circumstances Gibraltar was forced to lower production and to reduce the number of employees by 125. As part of the production decrease, and to effect all possible economies, the mine was closed on all statutory holidays, as well as the regular three-week summer vacation period. The single employees' camp was closed and sold.

The Company, the country, and taxes

The copper market is highly cyclical so that producers regularly experience periods of above average earnings which are then followed by declining demand and low earnings or losses. If mines are to survive the latter periods they must retain part of the earnings accumulated during the periods of strong demand. Your Company was fortunate in experiencing approximately two years of expanding markets and rising copper prices before the current recession began. In that time Gibraltar was able to repay its development loans and commence dividend payments. It was also able to accumulate a cash balance which is enabling it to weather both low market prices that are now often below production costs, and a restricted market demand.

Despite the significant decline in earnings for 1975, the mine has been required to continue payment of a provincial mineral royalty. In addition, neither the British Columbia royalty nor its mining tax are recognized by the federal government as deductible expenses. As a result, such payments to the provincial government are also subject to federal income taxes.

The influence of government on business life in Canada may well become all-encompassing in the future. No significant decision in the commercial world is now taken without consideration of government-imposed costs. Planning is frequently based on estimates as to the intent of government legislation rather than on clearly defined guidelines, and all too often, as a result of uncertainties, projects are deferred or cancelled, reducing wealth-producing and job-creating enterprises.

The ever-larger portion of the country's wealth now requisitioned by government has become one of the foremost concerns to Canadians today. The impact of higher taxes has been felt particularly by the basic resource sector where there is less risk to the government of voter alienation. Competition between different levels of government to tax mining revenue has created a situation where some companies, Gibraltar among them, are subject to double taxation and placed in a loss position.

The former provincial government, whose royalty legislation was a key component in the onerous tax position of the British Columbia mining industry, had declared its intention to re-examine this mining legislation. The new provincial government, elected on December 11, 1975, has committed itself to removing royalties on mineral production and has indicated that they will be replaced by a new or increased tax on profits.

The federal government has recently announced legislation to impose a levy on exports as part of its programme to control inflation. Full details are not yet available, but it is understood that if the price of copper on world markets rises so that the Company's profit margin exceeds 95% of its average profit margin during the preceding five years, a 100% federal levy will confiscate such "excess" earnings. Although up to 90% of this levy may eventually be refunded, the immediate consequences do not appear to be in the best interests of Canada, which is endeavouring to increase export trade.

The town of Williams Lake has recently proposed that the mine, located 38 miles away, should be included within the municipal boundaries and be subject to direct municipal taxation. The mine now pays property taxes to the provincial government, but the proposal which does not include the provision of any municipal services, would result in increased taxes of approximately $250,000 per year.

Dividends and capital expenditures

The dividend paid by Gibraltar in 1974 was $1.00 per share and was made possible by the strong market for copper. By the end of 1974, however, the market situation had deteriorated and your Directors considered that the Company's cash balance should be conserved in view of the uncertainties in extent and duration of the current economic recession. For these reasons, no dividend was declared in 1975.

Capital expenditures were kept to a minimum of $1,089,000 in 1975 in order to conserve financial resources and in line with reduced production by Gibraltar. A sum of $1,700,000 has been budgeted in 1976 for preparation of Stage 1 mining of the Pollyanna Zone in 1977. This expenditure is necessary to maintain the mining sequence of the orebodies and cannot be deferred.

Marketing

The sharp decline in deliveries of refined copper during 1975 reflected a continued

slowdown in industrial activity of the major industrialized countries. Inventories held by copper consumers and fabricators were liquidated to avoid re-ordering. Following a decline of 6% in 1974, copper consumption fell an additional 15% to about 5.5 million metric tons in 1975. The aggregate decline was the largest recorded for a similar period since the Second World War.

Significant production cutbacks by world copper producers in 1975 did not match the decline in copper consumption, and stocks in the hands of producers and metal exchanges consequently rose to about 1.3 million metric tons by year-end. Since that is approximately three times normal requirements, metal prices fell to the present low range. The average London Metal Exchange price in 1975 was U.S. 56¢ per pound (1974 — U.S. 93¢ per pound). Although copper consumption is expected to increase by approximately 15% in 1976, it will remain well below the 1973 level.

Nippon Mining Co., Ltd., the major purchaser of Gibraltar concentrate, requested the mine to reduce shipments in 1975 by 15% of normal levels. As a result, approximately 20,000 tons of concentrate were sold to other smelters. Year-end concentrate inventory was held to 10,300 tons (1974 — 21,600 tons) which is close to the normal minimum inventory.

Mine operations

Four separate ore zones — Gibraltar East, Granite Lake, Pollyanna, and Gibraltar West — are being mined in accordance with a basic mining plan designed to maximize all potential economies. The plan calls for an initial Stage 1 mining of each ore zone. Stages 2 and 3 will follow through the life of the mine which, at current production rates, is estimated at approximately 25 years.

Mining is carried out by drilling and blasting. Broken ore and rock are loaded by 13-cubic-yard shovels into 100-ton, diesel electric trucks which haul to the primary crusher or waste dumps. The mine currently uses three self-propelled drills, five shovels, and 27 trucks.

Stage 1 mining of the Gibraltar East Pit provided ore from commencement of operations in 1972 until August, 1974. Since then all ore production has been from Stage 1 mining of the Granite Lake Pit. In 1975, ore and waste were mined from this pit at a daily average rate of 85,000 tons. A total of 11,560,000 tons of ore was produced during the year at a strip ratio of 1.39 tons of waste and low grade to each ton of ore mined (1974 — 13,273,000 tons; 1.36:1). Production included 1,355,000 tons of ore on claims held by Cuisson Lake Mines Ltd. (40.59% owned by Gibraltar).

Concentrator

Production of copper concentrate in 1975 was 158,700 tons (1974 — 166,800 tons) containing 83,559,000 pounds of copper (1974 — 90,246,500 pounds). Production of molybdenum was terminated early in the year following a sharp increase in chemical reagent costs which rendered recovery of the mineral uneconomic. Most of the molybdenum flotation equipment has been converted to increase copper recovery.

The concentrator operated at an average rate of 34,400 tons per operating day (1974 — 38,300 tons), treating a total of 11,451,000 tons of ore (1974 — 13,397,000 tons). The average grade of ore was 0.43% copper (1974 — 0.40%). Recovery of copper, at 84.73% (1974 — 84.29%), improved primarily as a result of lower oxide content and reduced throughput.

Ore reserves

Mineable ore reserves on December 31, 1975, calculated to a cut-off grade of 0.25% copper at a strip ratio of 2.15:1, were:

	Tons	% Copper
Gibraltar East	115,000,000	0.35
Granite Lake	103,000,000	0.35
Pollyanna	81,000,000	0.36
Gibraltar West	9,000,000	0.40
	308,000,000	0.35

The above estimates do not include approximately 12,600,000 tons of ore on leases held by Cuisson Lake Mines Ltd. and covering part of the Granite Lake Zone. In 1975, 1,355,000 tons of Cuisson ore was mined and 1,315,000 tons was milled.

Employee relations

A new bargaining agent, the Canadian Association of Industrial, Mechanical and Allied Workers (CAIMAW), was certified in December, 1975. Negotiations have begun for a new collective agreement to replace the current agreement which expires on February 29, 1976. Legal proceedings are being continued against the United Steelworkers of America, bargaining agent at the time of a wildcat strike in May, 1974. The case, in which Gibraltar is seeking to recover damages resulting from lost production, will be heard in March, 1976.

Although turnover of hourly-rated employees has declined significantly to 3.2% (1974 — 8.5%), there is a continued shortage of qualified tradesmen. A journeyman training programme designed to reduce maintenance time and costs was introduced by the Company to alleviate this shortage. The apprenticeship programme, jointly sponsored by the province and the Company, was continued with a total of 74 employees enrolled at year-end.

The number of employees on December 31, 1975 was 525 (1974 — 632). A total of $8,301,000 for payroll and benefits (1974 — $8,548,000) represented an average annual income per employee of $15,900 (1974 — $14,800).

Although housing assistance to employees in the form of previously-granted second mortgages on serviced lots was continued, the number of new mortgages granted was reduced as part of the economy programme. Mortgages are cancelled over a five-year period if the recipient remains employed by the mine.

Environment and community relations

The mine met or exceeded all environment protection regulations during 1975. In addition, its programme of grass seeding on areas previously disturbed by mining activity was augmented with an initial planting of small trees and shrubs. The mine was host to a number of visiting groups from industry, government, and education as well as to the general public during the summer months. Scholarships were provided to four students, two of whom reside in Williams Lake, and two who are studying mining-related subjects at the British Columbia Institute of Technology.

Acknowledgement

Gibraltar experienced difficult conditions of poor markets and declining revenues in 1975. Your Directors feel that losses would have been greater without the efforts of mine manager J.M. Gibbs and the staff and employees to increase efficiency and control operating costs.

On behalf of the Board,

T.H. McClelland

President

Vancouver, B.C.
January 27, 1976

YEARLY AVERAGE COPPER PRICES (L.M.E. Copper Wire Bar Cash Settlement Prices)

1966	69.31	*U.S. ¢ per lb.*
1967	51.08	
1968	56.21	
1969	66.24	
1970	64.13	
1971	49.25	
1972	48.79	
1973	80.92	
1974	93.39	
1975	55.99	

WESTERN BLOC REFINED COPPER CONSUMPTION

1966	5,751	*thousands of short tons*
1967	5,394	
1968	5,705	
1969	6,323	
1970	6,387	
1971	6,307	
1972	6,882	
1973	7,653	
1974	7,171	

WESTERN BLOC COPPER PRODUCTION

1966	4,780	*thousands of short tons*
1967	4,484	
1968	4,868	
1969	5,335	
1970	6,735	
1971	6,346	
1972	7,036	
1973	7,368	
1974	7,660	

Statement of Earnings

	Year ended December 31, 1975	1974
REVENUES:		
Concentrate sales	**$39,556,000**	$61,367,000
Interest and other income	**417,000**	922,000
	39,973,000	62,289,000
EXPENSES:		
Cost of sales	**32,352,000**	30,140,000
Depreciation and depletion	**5,320,000**	5,298,000
General and administrative	**669,000**	683,000
	38,341,000	36,121,000
EARNINGS BEFORE ROYALTIES AND TAXES	**1,632,000**	26,168,000
ROYALTIES AND INCOME TAXES:		
Mineral royalties	**1,327,000**	1,306,000
Income and mining taxes —		
Current	**1,348,000**	2,279,000
Deferred	**(667,000)**	5,281,000
	2,008,000	8,866,000
NET EARNINGS (LOSS)	**$ (376,000)**	$17,302,000
Earnings (loss) per share	**$ (0.03)**	$ 1.52

Statement of Retained Earnings

	Year ended December 31, 1975	1974
Retained earnings, beginning of year	**$66,578,000**	$60,687,000
Net earnings (loss)	**(376,000)**	17,302,000
	66,202,000	77,989,000
Dividends — (1974 — $1.00 per share)	**—**	11,411,000
Retained earnings, end of year	**$66,202,000**	$66,578,000

Balance Sheet

ASSETS	December 31, 1975	December 31, 1974
CURRENT ASSETS:		
Cash and time deposits	**$ 7,220,000**	$ 5,691,000
Marketable securities, at cost which approximates market value	**1,909,000**	1,130,000
Accounts receivable	**4,701,000**	664,000
Receivable from associated companies	**203,000**	730,000
Concentrate inventories	**1,930,000**	4,357,000
Materials and supplies	**4,842,000**	5,412,000
	20,805,000	17,984,000
DEPOSITS AND MORTGAGES RECEIVABLE	**827,000**	975,000
PROPERTY:		
Buildings and equipment (Note 2)	**50,206,000**	54,359,000
Mining properties and development, at cost less accumulated depletion of $2,107,000 (1974 — $1,545,000)	**9,381,000**	9,943,000
	59,587,000	64,302,000
	$81,219,000	$83,261,000

LIABILITIES AND SHAREHOLDERS' EQUITY		*December 31,* 1975	1974
CURRENT LIABILITIES:			
Accounts payable and accrued liabilities		**$ 3,193,000**	$ 4,902,000
Mineral royalties, income and mining taxes payable		**1,563,000**	853,000
		4,756,000	5,755,000
DEFERRED INCOME AND MINING TAXES		**4,614,000**	5,281,000
SHAREHOLDERS' EQUITY:			
Share capital —			
Authorized —			
12,000,000 common shares of 50¢ par value each	$6,000,000		
Issued and fully paid —			
11,411,469 shares		**5,647,000**	5,647,000
Retained earnings		**66,202,000**	66,578,000
		71,849,000	72,225,000
		$81,219,000	$83,261,000

Approved by the Board.
T. H. McClelland, *Director*
R. G. Duthie, *Director*

Statement of Changes in Financial Position

	Year ended December 31, 1975	1974
FINANCIAL RESOURCES WERE PROVIDED BY:		
Net earnings (loss)	$ (376,000)	$17,302,000
Add (deduct): Items not involving working capital —		
Depreciation and depletion	5,320,000	5,298,000
Deferred income and mining taxes	(667,000)	5,281,000
Total from operations	4,277,000	27,881,000
Deposits and mortgages receivable	148,000	(13,000)
Disposal of buildings and equipment	484,000	5,000
	4,909,000	27,873,000
FINANCIAL RESOURCES WERE USED FOR:		
Dividends	—	11,411,000
Additions to buildings and equipment	1,089,000	5,156,000
	1,089,000	16,567,000
Increase in working capital	3,820,000	11,306,000
Working capital, beginning of year	12,229,000	923,000
Working capital, end of year	$16,049,000	$12,229,000
ANALYSIS OF CHANGES IN WORKING CAPITAL:		
Increase (decrease) in current assets —		
Cash and time deposits	$ 1,529,000	$ 278,000
Marketable securities	779,000	968,000
Accounts receivable	4,037,000	(1,331,000)
Receivable from associated companies	(527,000)	692,000
Concentrate inventories	(2,427,000)	3,606,000
Materials and supplies	(570,000)	2,503,000
	2,821,000	6,716,000
Increase (decrease) in current liabilities —		
Accounts payable and accrued liabilities	(1,709,000)	(1,690,000)
Mineral royalties, income and mining taxes payable	710,000	(2,900,000)
	(999,000)	(4,590,000)
Increase in working capital	$ 3,820,000	$11,306,000

Notes to Financial Statements December 31, 1975

1 — ACCOUNTING POLICIES:

Foreign currencies —

Amounts in foreign currencies are translated into Canadian dollars. Current assets and current liabilities, where applicable, are translated at year-end rates. Non-current assets, revenues and expenses are translated at the rates in effect on the dates of the relevant transactions.

Inventory valuation —

Concentrate is valued at the lower of cost and net realizable value. Materials and supplies are valued at the lower of moving average cost and replacement cost.

Revenue —

Concentrate revenue is recognized at the time of sale. However, concentrate sales not finalized at year-end have been recorded at prices estimated to be in effect on finalization dates. Accordingly, amounts ultimately received may differ from those recorded at year-end.

Depreciation and depletion —

Depreciation is provided over the estimated useful lives of the assets on the following bases —

(a) buildings and machinery on a straight-line basis at the rate of 5%, and

(b) mobile equipment on a diminishing-balance basis at rates of 15% to 36%.

Depletion of mining properties and development is provided on a straight-line basis over twenty years, which is less than the estimated life of the mine.

Deferred income and mining taxes —

The Company records income and mining taxes on the tax allocation basis. Under this method, timing differences between the amount of income reported for tax purposes and accounting purposes (which arise primarily from claiming depreciation and depletion in different amounts) result in deferred income and mining taxes which are shown separately in the financial statements.

Comparative figures —

Certain 1974 figures have been reclassified to conform with the 1975 presentation.

2 — BUILDINGS AND EQUIPMENT:

	December 31, **1975**	1974
Cost —		
Buildings and machinery	**$52,112,000**	$51,823,000
Mobile equipment	**15,280,000**	15,332,000
	67,392,000	67,155,000
Accumulated depreciation —		
Buildings and machinery	**9,394,000**	6,837,000
Mobile equipment	**7,792,000**	5,959,000
	17,186,000	12,796,000
	$50,206,000	$54,359,000

3 — INCOME TAXES:

At December 31, 1975, the earned depletion available to the Company to reduce future income taxes is approximately $13,699,000 (1974 — $14,016,000).

In 1974 income taxes were reduced by approximately $2,488,000 as a result of claiming depreciation and depletion for tax purposes which were not claimed during the income tax exempt period.

4 — REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:

Aggregate direct remuneration paid to the directors and senior officers was $178,000 (1974 — $153,000).

5 — CHANGE OF COMPANY NAME:

In 1975 the Company changed its name to Gibraltar Mines Limited from Gibraltar Mines Ltd. (N.P.L.)

6 — PRICE AND INCOME CONTROLS:

Effective October 14, 1975, the Company is subject to controls on profits, compensation and dividends under the provisions of the Federal Government's Anti-Inflation Act. It appears from a review of the profit controls contained in this Act, together with the proposed export levy, that the effects on the Company will not be significant near current price levels. Any dividends paid in 1976 cannot exceed the same rate per share as in 1974.

Auditors' Report

TO THE SHAREHOLDERS OF GIBRALTAR MINES LIMITED:

We have examined the balance sheet of Gibraltar Mines Limited as at December 31, 1975 and the statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the Company as at December 31, 1975 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, B.C.
January 26, 1976.

PRICE WATERHOUSE & CO.,
Chartered Accountants

LITHO'D IN CANADA
AGENCY PRESS LIMITED